

Message Text

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C O N F I D E N T I A L LONDON 14460

LIMDIS GREENBACK

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: GDS

TAGS: EFIN, UK

SUBJECT: U.K. PUBLIC BORROWING IN INTERNATIONAL MARKETS

SUMMARY: U.K. TREASURY EXPECTS THAT REMAINING \$2 BILLION PROCEEDS OF U.K. EURODOLLAR BORROWING ANNOUNCED LAST MARCH WILL BE DRAWN DOWN BY END MARCH 1975; \$500 MILLION OF THE BORROWING WAS ADDED TO RESERVES IN OCTOBER; \$400 MILLION FIRST TRANCHE OF IRANIAN BORROWING SHOULD BE ADDED TO RESERVES IN NOVEMBER OR DECEMBER. END SUMMARY.

1. H.M. TREASURY SOURCE REPORTS THAT IN OCTOBER, CONTRARY TO INITIAL EXPECTATION, U.K. DREW \$500 MILLION (RATHER THAN ONLY \$250 MILLION) FROM ITS \$2.5 BILLION EURODOLLAR LOAN AGREEMENT. FACT \$500 MILLION TAKEN WAS NOTED IN OFFICIAL RESERVES PRESS RELEASE (LONDON 14413). WHAT IS NOT PUBLICLY KNOWN, AND PASSED ON IN CONFIDENCE, IS THAT ONE OF THE \$250 MILLION TRANCHES WAS TAKEN AT THREE-MONTH EURODOLLAR (LIBO) RATE, THE OTHER AT THE SIX-MONTH RATE. LIBO CHARGED WAS ABOVE 10-1/2 AT TIME OF TAKING, AND ADDING THE 3/8 MARGIN ABOVE LIBO, INTEREST RATE ON THE DRAWINGS SLIGHTLY ABOVE 11 PERCENT. (RECALL TERMS OF AGREEMENT U.K. CAN TAKE DOWN FUNDS ON THREE, SIX, OR TWELVE MONTH ROLLOVER BASIS AT ITS OPTION; MARGINS OVER LIBO ARE 3/8
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FIRST TWO YEARS, 1/2 NEXT THREE, 5/8 IN SIX-SEVENTH YEARS

AND 3/4 IN LAST THREE.) ORIGINAL LOAN AGREEMENT PROVIDED THAT ANY UNDRAWN AMOUNTS WOULD LAPSE AT END 1974. THIS PARTIALLY EXTENDED BY RENEGOTIATION WITH LENDERS WHICH PROVIDES EXTENSION FOR DRAWDOWN PERIOD TO END MARCH 1975. IN PART BECAUSE OF FAVORABLE MARGINS INVOLVED, U.K. EXPECTS TO DRAW DOWN REMAINING \$2 BILLION BY END MARCH.

2. OUR REPORT (LONDON 14304) THAT \$400 MILLION PROCEEDS OF IRANIAN BORROWING WOULD BE ADDED TO RESERVES IN OCTOBER PROVED INACCURATE. ACCORDING SOURCE, \$400 BORROWING ON BEHALF OF NATIONAL WATER COUNCIL MUST BE TAKEN IN 1974, BUT DRAWDOWNS AND ADDING TO RESERVES MAY NOT COME ABOUT UNTIL LATER THIS MONTH OR DECEMBER. AGREEMENT FOR \$1.2 BILLION BORROWING WITH IRAN PROVIDES FOR \$400 MILLION TAKEDOWN IN 1974, 1975, AND 1976 RESPECTIVELY. SOURCE WAS NOT CERTAIN THAT ALL TERMS FOR THIS YEAR'S DRAWDOWN HAVE BEEN HAMMERED OUT YET. RATES TO BE PAID ARE QUOTE MARKET TERMS UNQUOTE, U.K. HOPES TO BUILD IN AS MUCH FLEXIBILITY AS POSSIBLE IN THIS YEAR'S AND FUTURE DRAWDOWNS.

3. PUBLIC SECTOR BORROWING ACTUALLY ADDED TO RESERVES IN FIRST 10 MONTHS 1974 TOTALS \$2.7 BILLION EQUIVALENT. GIVEN MAGNITUDE OF UK PUBLIC BORROWING IN FOREIGN CURRENCIES UK TREASURY IS VERY PLEASED WITH FALL IN US INTEREST RATES AND CONCOMMITANT FALL IN EURO CURRENCY AND STERLING RATES. TO EXTENT UK EXTERNAL BORROWING IS ON ROLL-OVER BASIS, AND MUCH IS, AND GIVEN LEVEL OF FOREIGN HOLDINGS OF STERLING, THERE IS OBVIOUS DIRECT BENEFIT TO UK INVISIBLES AND BALANCE OF PAYMENTS ACCOUNTS. SOHM

NOTE BY OC/T: NOT PASSED TRSE AND FRB.

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